

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3088-01
BILL NO.: HB 1295
SUBJECT: Business and Commerce; Revenue Department; Taxation and Revenue - General;
Taxation and Revenue - Sales and Use.
TYPE: Original
DATE: January 31, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$123,695,400)	(\$193,894,650)	(\$202,608,000)
School District Trust	(\$41,026,667)	(\$64,310,000)	(\$67,200,000)
Conservation	(\$5,128,333)	(\$8,038,750)	(\$8,400,000)
Parks and Soil	(\$4,102,667)	(\$6,431,000)	(\$6,720,000)
Total Estimated Net Effect on <u>All</u> State Funds	(\$173,953,067)	(\$272,674,400)	(\$284,928,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses

This fiscal note contains 4 pages.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	(\$61,540,000)	(\$96,465,000)	(\$100,800,000)

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of Administration (COA)** state the purpose of this proposal is to exempt clothing costing less than one thousand dollars from all sales tax. COA staff have based their estimate on U.S. Personal Consumption Expenditures for Clothing/Shoes from August 1998 "Survey of Current Business". COA staff assumes Missouri represents 1.9% of U.S. totals. No adjustment was made for the \$1,000 cap. For FY2001, there is an eight month impact, assuming an effective date of October 1, 2001 and a one month implementation lag. Taxable sales are estimated to be \$6,154,000,000 for FY 2001, \$6,431,000,000 for FY 2002, and \$6,720,000,000 for FY 2003.

Officials of the **Department of Revenue (DOR)** assume the intent of this legislation is to exempt articles of clothing from the state and all locals sales taxes. They also state that if this proposal passes, significant administrative costs within the DOR would result. The DOR states that they do not have information that would specifically identify the clothing exempted by this proposal so fiscal impact would be unknown. However, in response to a similar proposal from 1999, the DOR did estimate a fiscal impact based on sales by stores in the Standard Industrial Classification 56(SIC-56)-which is apparel and accessories stores and also stated that this proposal would not fiscally impact their agency.

Oversight, in a previous proposal had based the fiscal impact on the Standard Industry Code (SIC) code-56; however, **Oversight** is compelled to rely on the data provided in the Personal Consumption Expenditures for Clothing/Shoes survey because SIC code-56 did not include some retail establishments which sold clothing and other items, such as discount stores and department stores. **Oversight**, for purposes of this fiscal note, has reflected the estimate provided by the Office of Administration. **Oversight**, for purposes of this note, assumes the Department of Revenue, as stated in a response to similar legislation from 1999, will not experience additional Administrative costs.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (9 Mo.)	FY 2002	FY 2003
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GENERAL REVENUE FUND

<u>Loss to General Revenue Fund</u>			
Clothing sales tax exemption	(\$123,080,000)	(\$192,930,000)	(\$201,600,000)

<u>Loss to General Revenue Fund</u>			
Loss of 1% collection fee from sales tax exempted at local level	(\$615,400)	(\$964,650)	(\$1,008,000)

ESTIMATED NET EFFECT ON			
GENERAL REVENUE FUND	(\$123,695,400)	(\$193,894,650)	(\$202,608,000)

<u>Loss to School District Trust Fund</u>			
Clothing sales tax exemption	(\$41,026,667)	(\$64,310,000)	(\$67,200,000)

<u>Loss to Conservation Fund</u>			
Clothing sales tax exemption	(\$5,128,333)	(\$8,038,750)	(\$8,400,000)

<u>Loss to Parks and Soil Funds</u>			
Clothing sales tax exemption	(\$4,102,667)	(\$6,431,000)	(\$6,720,000)

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (9 Mo.)	FY 2002	FY 2003
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<u>Loss to Cities</u>			
Clothing sales tax exemption	(\$36,924,000)	(\$57,879,000)	(\$60,480,000)

<u>Loss to Counties</u>			
Clothing sales tax exemption	(\$24,616,000)	(\$38,586,000)	(\$40,320,000)

ESTIMATED NET EFFECT TO			
LOCAL GOVERNMENT FUND	(\$61,540,000)	(\$96,465,000)	(\$100,800,000)

FISCAL IMPACT - Small Business

Small businesses who sell clothing would be expected to be fiscally impacted to the extent that they would no longer collect and pay sales tax on these taxable items. Small businesses who would purchase clothing would pay less for such items.

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DESCRIPTION

This bill exempts from state and local sales and use tax all purchases of clothing for which the retail price of the individual clothing item is less than \$1,000. Clothing is defined as all clothing which is intended to be worn on a person and includes cloth or material made of natural or synthetic fibers, including footwear.

The bill has an effective date of October 1, 2000.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration

A handwritten signature in black ink, appearing to read "Jeanne Jarrett", with a stylized, cursive script.

Jeanne Jarrett, CPA
Director
January 31, 2000